

Natural Sciences and Engineering Research Council of Canada Quarterly Financial Report for the Quarter Ended June 30, 2014

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs

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1. Introduction

The Natural Sciences and Engineering Research Council of Canada (NSERC) was established in 1978 by the *Natural Sciences and Engineering Research Council Act*, and is a departmental corporation named in Schedule II of the *Financial Administration Act*. NSERC's purpose is to help make Canada a country of discoverers and innovators for the benefit of all Canadians, by supporting postsecondary students and postdoctoral fellows in their advanced studies, promoting discovery by funding the research programs of academic researchers, and stimulating partnerships between academia and industry. Further information on the NSERC mandate and program activities can be found in Part II of the Main Estimates.

This Quarterly Financial Report (QFR) has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the Main Estimates.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes NSERC's spending authorities granted by Parliament and those used by the department, consistent with the Main Estimates and Supplementary Estimates for the 2014-15 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authorities for specific purposes.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

NSERC uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

This quarterly report has not been subject to an external audit or review.

2. Highlights of Fiscal Quarter

Statement of Authorities

Available Authorities

As of June 30, 2014, NSERC's total available authorities for 2014-15 amount to \$1,063 million. To date, for 2014-15, these changes resulted in an increase in total authorities of \$13.6 million (1.3%) over the prior year, of which \$13 million represented an increase in NSERC's grant and scholarship programs, while the authorities for operating and employee benefits expenditures increased by \$0.6 million. The changes in available authorities are the result of previous federal budget announcements that impact both the operating authorities (vote 1), and the grant and scholarship program authorities (vote 5) in the current fiscal year. The net changes between the current and previous fiscal year, comprise of the following elements:

- an increase of \$15M to the Council, including \$12M to enhance the College and Community Innovation Program (Budget 2013);
- an increase of \$2.3M from the National Research Council for the Canadian Light Source initiative;
- a decrease of \$1.7M in the Business-Led Networks of Centres of Excellence program, which creates a link between innovative businesses and Canada's world-class researchers, helping to create and sustain knowledge-based jobs;
- a decrease of \$1.5M in the Centres of Excellence for Commercialization and Research program, which creates effective and efficient ways to identify commercialization opportunities (Budget 2007);
- a decrease of \$0.3M in the Industrial Research Chairs for Colleges program and the College and Community Innovation program, both of which enable Canadian colleges to increase their capacity to work with local companies, particularly small and medium-sized enterprises (SMEs); and

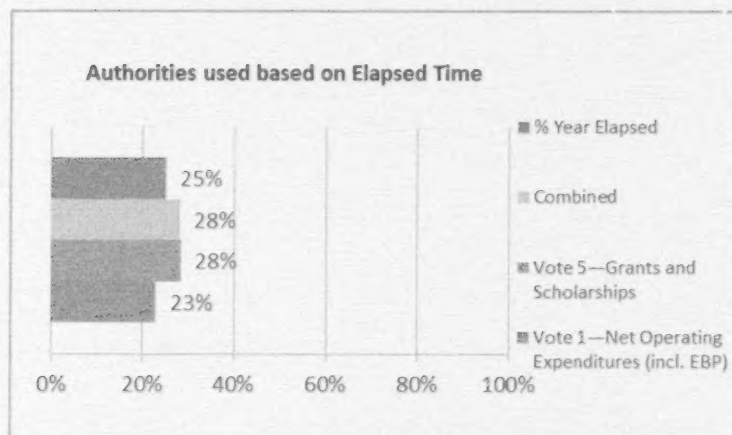
- a decrease of \$0.2M from a reduction in NSERC's travel budget and a transfer to Shared Services Canada for the streamlining of the procurement of end user device software.

Authorities Used in the First Quarter

This departmental QFR reflects the results of the current fiscal period in relation to the 2014-15 Main Estimates and the Supplementary Estimates (A) (SEA), for which full supply was released by Parliament on June 20, 2014.

The total authorities used during the first quarter of 2014-15 amounted to \$296.6 million (28% of the total available authorities; 28% of total authorities used for grant and scholarship programs; and 23% for operating expenditures and employee benefits). The expenditures are \$5.8 million more than at the end of the same quarter in the previous fiscal year. This increase is principally related to grant and scholarship programs. The increase in grant and scholarship expenditures is the net result of previously expanded program authorities in specific programs; increasing demand in some programs; and payment timing differences between the first and second quarters of the comparative fiscal years, which are expected to offset by year-end.

Grant and scholarship payments vary between periods due to the cycle and results of peer-reviewed program competitions and multi-year award profiles. Operating expenditures cover personnel and other operating expenses required to support the delivery of grant and scholarship programs. Expenditures related to the Employee Benefit Plan are accounted for separately in statutory authorities. Although the majority of personnel expenditures and other operating costs are incurred in a consistent manner throughout the fiscal year, the balance of expenditures, including temporary employees hired for the peak competition season and travel costs for peer reviewers, occur in direct conjunction with the program cycle and are demand driven. As a large proportion of program competitions occur in the final quarter of the fiscal year, the operating expenditures in each of the first three quarters are typically less than 25% of the annual operating available authorities.



Statement of Departmental Budgetary Expenditures by Standard Object

Variation in Amounts Available for Use in 2014-15

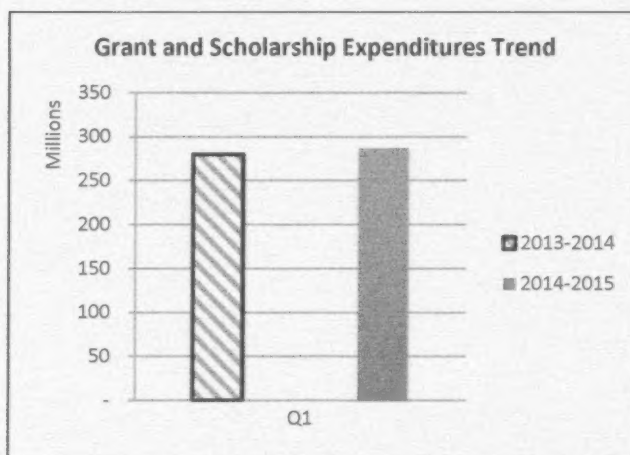
As described in the Available Authorities section, NSERC's parliamentary authorities have increased by \$13.6 million to date in 2014-15 over the prior year, the bulk of this increase is attributed to the increase in authorities for transfer payment programs (\$13 million).

Transfer Payments Expenditures (Grants and Scholarships)

First Quarter Grant and Scholarship Expenditures

Transfer payments represent approximately 95.5% of NSERC's available authorities. Variations occur in transfer payment expenditures between quarters due to the nature of program cycles. During the first quarter of 2014-15, NSERC's actual transfer payment expenditures have increased by \$6.7 million compared to the same quarter of the previous fiscal year. There are a number of differences in specific programs from year to year:

- an increase of \$5.4 million over the previous year related to some expanded program authorities, and the related increased take-up in certain programs of the Strategy for Partnerships and Innovation (\$3.2 million in Collaborative Research and Development Grants and \$2.2 million in Engage Grants);
- an increase of \$2.7 million over last year in the Collaborative Research and Training Experience Program (CREATE). This year, the number of new applications increased, and an increase of \$5 million in expenditures is expected in this program by the end of the fiscal year; and
- a decrease of \$1.4 million, due mainly to payment timing differences, in the Networks of Centres of Excellence.



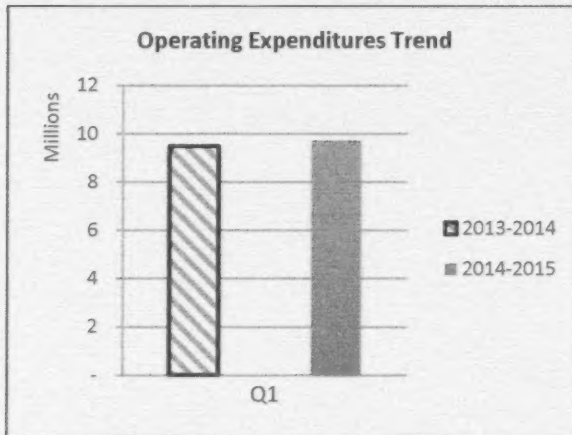
Personnel Expenditures

Personnel expenditures in support of program delivery account for the largest proportion of NSERC's planned operating expenditures (approximately 70% of available operating authorities and planned operating expenditures for 2014-15). The personnel expenditures for the first quarter of 2014-15 are generally in line with the comparable expenditures of the prior year. The increase of \$1,122,000 under the standard object "Other subsidies and payments" is due to a one-time transition payment for implementing salary payment in arrears by the Government of Canada.

Non-Personnel Operating Expenditures

Non-personnel operating expenditures include all other operating costs related to the support of program

delivery, a significant proportion of which relates to program competitions that take place predominantly during the final quarter of the fiscal year. Total non-personnel expenditures to date in 2014-2015 are generally consistent with the prior year. Decreased expenditures took place during the first quarter of this fiscal year for professional and special services (\$397,000) related to the late initiation of projects requiring professional expertise and assistance. Repairs and maintenance have also seen a slight decrease (\$338,000) due to the timing of maintenance that did not occur in the comparative period of the previous fiscal year.



3. Risks and Uncertainties

Funding and Program Delivery Risk Factors

Through the Council's most recent corporate risk identification exercise, the risks that have a potential financial impact or that deal with financial sustainability have been assessed. The impact on NSERC and the planned mitigation strategies related to these risks are discussed below.

External Risk Factors

NSERC is funded through annual parliamentary spending authorities and statutory authorities for program transfer payments (grant and scholarship programs) and for its supporting operating expenditures. As a result, its program activities and operations are impacted by any changes to funding approved through Parliament. Accordingly, delivering programs can be affected by factors such as the economic and political climate, technological and scientific development, and evolving government priorities, which impact approved resource levels (total available authorities).

Research and innovation are part of global trends; therefore, participation in our programs is influenced not only by the Canadian context, but also by initiatives and opportunities worldwide. Formal communications and external relation strategies are developed by NSERC to ensure that stakeholder relationships and expectations are managed effectively and that NSERC has fulfilled identified research and innovation needs.

There is also the risk that NSERC fails to achieve its mandate and strategic outcomes. To mitigate this risk, an integrated planning process is firmly in place at NSERC. This process serves as the foundation

for NSERC to plan all aspects of its business in an integrated manner and to align priorities and resources accordingly.

Internal Risk Factors

NSERC is a knowledge-based organization that relies on maintaining its talented and committed workforce to deliver its programs. To retain its valuable human resources and their corporate memory, NSERC is developing a human resources strategy that outlines the organization's commitments and action plan for developing talent and for building and sustaining a thriving and successful workplace and work culture. NSERC's financial restraints are challenging the ability to hire the skilled resources needed to successfully achieve the transformation and realignment agendas to meet tomorrow's needs. Potential consequences could include workload management issues and succession planning challenges.

NSERC is transforming its business in order to improve external client service and increase efficiencies.

Budgetary pressures have required internal reductions and reallocation measures. These pressures are compounded by the operational requirement to support an increased and broadened program base while processing an increasing number of applications and absorbing inflationary costs on operating expenditures within limited or decreasing operational envelopes. NSERC is also managing the requirement for the implementation of modernized technology solutions to better support program delivery.

Thus far, NSERC has achieved the reduction of its operating pressures through economies of scale achieved by the shared administrative service arrangements with SSHRC; corporate-wide prioritization and harmonization or reduction of activities; internal reallocations; and a focus on streamlining and generating efficiencies wherever possible. An established budgetary process with regular in-year budget reviews and formal reallocations for emerging priorities approved by senior management supports this endeavour. NSERC is also undertaking a revision of its operating and grant delivery systems and processes to generate further efficiencies and future savings.

NSERC is a lean agency in terms of operating funding provided to deliver existing and expanding programs (less than 5% of total resources). This efficiency is thanks partly to the thousands of volunteer peer reviewers offering their expertise in the rigorous evaluation of funding applications. In addition, NSERC is pursuing business transformation to address restraint measures and funding cuts, and to enhance resource decision-making.

4. Significant Changes Related to Operations, Personnel and Programs

There have been a number of important changes, in comparison with the previous fiscal year, that relate to operations, personnel and programs. These include the impacts generated by NSERC's previously increased available authorities, which resulted in expanding the Strategy for Partnerships and Innovation program dimensions. Another significant influence involved the continuing implementation of government-wide operating budget constraint measures and the government's efforts to return to a balanced budget, details of which are described in the section below. The federal Budget 2014, tabled in March 2014, included funding announcements describing additional program dimensions that will be implemented by NSERC, following Treasury Board and Parliament approvals, over the course of the fiscal year.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that are being implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and modernize administrative processes.

Through Canada's Economic Action Plan, NSERC had achieved savings of approximately \$30 million as of 2013-14. Over Budget 2012, Budget 2013 and Budget 2014, the Government of Canada has reinvested \$45 million annually in NSERC's grant and scholarship programs, resulting in a net increase of \$15 million to NSERC's overall budget.

NSERC has examined all of its activities and investments, with the intention of streamlining operations and ensuring maximum efficiencies.

In realizing operating budget savings, a number of measures are being implemented to generate greater efficiency and effectiveness, including an enhanced use of technological advancements, such as teleconferencing and virtual meetings. A rigorous and cohesive approach to priority setting, project planning, and training will further help the Council meet its goals.

Expenditures in the first quarter of 2014-15 are higher than in the same period of the previous fiscal year. The difference between the two fiscal years is due mainly to increases in take-up in some programs. The Council's operating expenditures have generally remained the same as in the comparable period of the previous year—a reflection of savings equivalent to the inflationary pressures.

There was no incremental funding provided to NSERC to implement the above cost savings measures.

There are no specific financial risks or uncertainties related to these savings.

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